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AND TRANSNATIONAL CORPORATIONS
Twenty-first session
Geneva, 24-28 April 1995

# DRAFT REPORT OF THE COMMISSION ON INTERNATIONAL INVESTMENT AND TRANSNATIONAL CORPORATIONS ON ITS TWENTY-FIRST SESSION

Held at the Palais des Nations, Geneva,
from 24 to 28 April 1995

Rapporteur: Mr. W. Haynes (United States of America)

## Addendum

**Speakers**:

| | |
|---|---|
| Chairman ISAR | Algeria |
| Netherlands | Russian Federation |
| Pakistan | Namibia |
| United States of America | France |
| Secretariat | Japan |
| Secretariat | Ethiopia |
| Netherlands | United States of America |
| China | France |
| Switzerland | Germany |
| Colombia | Secretariat |
| Lebanon | |

**Note for Delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Friday, 5 May 1995 at the latest** to:

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## Chapter II

## IMPLEMENTATION OF THE PROGRAMME ON INTERNATIONAL INVESTMENT AND TRANSNATIONAL CORPORATIONS

(Agenda item 5)

1. For its consideration of this item, the Commission had before it the following documentation:

"Experiences gained in technical cooperation activities relating to the commercialization of science and technology" - Report by the UNCTAD secretariat (TD/B/ITNC/4);

"Report of the Working Group of Experts on International Standards of Accounting and Reporting" (TD/B/ITNC/5-TD/B/ITNC/AC.1/6).

"Activities of the programme on international investment and transnational corporations" (TD/B/ITNC/Misc.3);

### A. Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

1. Mr. Nelson Carvalho (Brazil), Chairman of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at its thirteenth session, presented the report of the Group (TD/B/ITNC/5-TD/B/ITNC/AC.1/6). He commented that foreign investment and transnational corporations played a significant role in the development of countries within his geographic region and noted that investors and recipients were partners in economic growth. With regard to the Intergovernmental Group's session, the main theme had been environmental accounting, and the Group had recognized the need for the continuation of research on this topic and had concluded that future work should consider the broad objectives, goals and concepts of environmental accounting. A one-day forum on the responsibilities and liabilities of accountants and auditors had also been held during the session. Given that financial markets placed great reliance upon audited financial statements and legal proceedings against accounting firms, the importance of the transparency of issues surrounding that topic was magnified.

2. He noted that the work of other international accounting organizations complemented that of ISAR and emphasized that ISAR endeavoured to cooperate with these organizations. He urged member States to support the substantive work of

ISAR and to help ensure the greatest possible global representation at its meetings. Finally, he drew attention to draft resolution V in document E/C.10/1994/12, which the Commission was requested to consider.

3. The representative of the **Netherlands** stated that her country felt that any work in the area of the accreditation of accountancy qualifications should concentrate on management and financial accountants and not professional auditor to avoid overlap of activities with the World Trade Organization.

4. The representative of **Pakistan** praised the work of ISAR on environmental accounting, which would help incorporate environmental considerations into economic decision-making. In addition, he commended the work of the Group on disclosures regarding derivatives and praised the involvement of the private sector in the work of ISAR as a model that could be applied elsewhere in UNCTAD's work.

5. The representative of the **United States of America** said that his country did not support the previously mentioned draft resolution V, nor the development of global standards for environmental accounting by ISAR. He suggested that the future orientations of ISAR should be considered during UNCTAD IX. Lastly, he praised the technical assistance activities of the Group.

Action by the Commission

6. The Commission postponed its consideration of draft resolution V until its next session. It took note of the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its thirteenth session, along with the reservations expressed by the Netherlands and the United States.

## B. Technical advisory activities and programme implementation

7. The **Director-in-charge of the Division on Transnational Corporations and Investment** made an oral report on the activities of the Division in the four main areas of its work: research and policy analysis; advisory service for investment and technology; accounting and information; and privatization. Based on the background documentation provided by the secretariat (TD/B/ITNC/Misc.3), he stressed that the past year had seen not only a consolidation of the Programme on Transnational Corporations, but also a considerable reduction in output throughout the activities of the Division due to a considerable decline in the regular-budget and extrabudgetary resources of the Programme. He emphasized that the declining trend was likely to continue in 1995, as the resource situation

was increasingly impinging on the Division's ability to carry out its tasks. He expressed his gratitude to the Governments of China, Denmark, the Republic of Korea, Namibia, Norway and Switzerland for their contributions to the Trust Fund and the Governments of Austria, Belgium and Denmark for providing associate experts to the programme. He also thanked the Government of Japan for its pledge made during the Commission's session to support the work of the Division on small and medium-sized enterprises.

8. The **Chief of the Advisory Service for Investment and Technology**, introducing document TD/B/ITNC/4, said that the experience gained in assisting the economies in transition in their reform process showed the benefits to be drawn from the commercialization of their science and technology capacities via business alliances with transnational corporations. Scientific products were routinely patented before they were marketed and licensing contracts normally captured the full potential value of the scientific product, but this was often not the case in the economies in transition due to lack of knowledge of international standards and insufficient skill in contract negotiation. Technical cooperation extended in this area included training and advisory assistance in intellectual property protection, marketing, strategic planning, negotiation, cost accounting, finance and other subjects relevant to market economies. The countries that had been involved so far in this programme included Belarus, Estonia, Kazakhstan, Latvia, Lithuania, Ukraine and Uzbekistan

9. The representative of the **Netherlands** pointed to discrepancies in the tables on training activities in document TD/B/ITNC/Misc.3 (table 3 and annex table 3) and requested clarification. She also said that the document should provide a clear overview of resources spent under each activity and requested that such information be included in future reports. With reference to document TD/B/ITNC/4, she said that the main focus of technical assistance activities should be on developing countries, in particular the least developed countries, and not on economies in transition.

10. The representative of **China** commended the research, advisory and information dissemination work of the Division and expressed his concern about the shortfall in resources. Recalling the several technical assistance projects conducted by the Division in China in 1994, he thanked the Division and the donors who had contributed to these programmes.

11. The representative of **Switzerland** praised the high quality of the analytical work of the Division. With regard to its technical assistance work, he requested a more thorough statement on the range of activities, as well as a detailed account of the assistance provided. Given increasing budget

restrictions, more transparency in accounting for resources received and spent would be required, and future Swiss contributions to the trust fund on transnational corporations would depend crucially on increased transparency in this regard. With reference to document TD/B/ITNC/4, he acclaimed the project presented as very well suited for economies in transition but lacking, in its present form, applicability for developing countries, which should be the main focus of the Division's technical advisory work.

12. The representative of **Colombia** expressed concern about the scaling-down of activities, in particular technical-assistance-related activities, because of budgetary constraints and strongly supported the appeals by the secretariat for donations to the trust fund. She supported the requests of other member States with regard to the need for greater clarity in accounting and requested an explanation for the slow progress in re-establishing the FDI database in Geneva. With regard to technical assistance, she expressed concern over the fact that transitional economies seemed to be given more attention than developing countries. She also regretted the few training activities implemented in 1994 and, in light of the growing demand in developing countries for training in the field of privatization and the regulatory framework, called for an expansion of the activities of the programme in this regard.

13. The representative of **Lebanon** voiced his country's appreciation of the advisory and technical assistance work implemented by the Division in his country and expressed his hopes that further resources, including human resources, would be made available to the Programme.

14. The representative of **Algeria**, praising the quality of the work and documentation prepared by the Division, expressed concern about the drying-up of resources and the slowing-down of crucial technical assistance activities. He called for a reactivation of the activities of the Division.

15. The representative of the **Russian Federation** thanked the Division for its work and with respect to technical assistance stressed the importance of strengthening and promoting an enabling investment climate, including private sector development, and the need to comply with the principle of universality in providing technical assistance, so that transitional economies would be included. He expressed satisfaction with the technical assistance projects carried out in the Russian Federation in 1994 and hoped for continued cooperation between Russia, UNCTAD and UNDP in this regard.

16. The representative of **Namibia** said that the African countries' relative decline in attractiveness to FDI and their increasing marginalization called for

concrete action on the part of the Commission and the international community. UNCTAD IX should put this issue at the top of its agenda, and regional seminars should be organized in Africa on the issue of promoting foreign direct investment.

17. The representative of **France** congratulated the secretariat for document TD/B/ITNC/4 and welcomed the specific nature of the study of countries mentioned therein. He invited the secretariat to extend the study to countries other than transitional economies so as to allow for a balanced approach and preserve the universal nature of UNCTAD. Work on this issue should also take into account the recommendations of the Ad Hoc Working Group on Comparative Experiences with Privatization.

18. The representative of **Japan** expressed his Government's high esteem for the Programme's research and technical advisory activities. He said that his Government would be providing financial support for the project on "Technical cooperation among developing countries to expand and strengthen the role of foreign direct investment by small and medium-sized enterprises in developing countries of Asia" and expressed his hope that the seminars organized under this project would attract as many private investors as possible.

19. The representative of **Ethiopia** emphasized his country's progress in establishing an enabling investment climate and thanked UNCTAD and the Government of Italy for supporting its efforts in this respect.

20. The representative of the **United States of America** stressed the need for greater transparency and accountability in the technical assistance area. In addition, he asked for more detailed information on the kind of assistance provided to member States in the form of a summary of recommendations. In this regard, he expressed his concern about the advice given by the secretariat on the issue of investment screening. He recommended closer contact and interaction with the business community in the technical assistance work of the Division. He agreed with Namibia on the need to focus on Africa, but in light of the existing resource constraints, he advised against organizing regional seminars in Africa. Rather, the question of FDI in Africa should become an important issue for UNCTAD IX, which, if the Conference was hosted by an African country, would lend further impetus to the issue.

21. The representative of **France** pointed out that UNCTAD IX should provide an opportunity to review the needs of Africa with respect to foreign direct investment.

22. The representative of **Germany**, referring to TD/B/ITNC/Misc.3, requested more detailed information on how resources were allocated among the four main areas of activity of the Division. With regard to accounting, he endorsed the work on environmental accounting but cautioned against the establishment of a subgroup of ISAR on this issue, in particular if it would require additional resources.

23. The **Director-in-charge of the Division**, responding to the comments made, emphasized that the report on technical assistance activities in 1994 reflected but a fraction of the work of the Advisory Service for Investment and Technology and that its work in the transition economies would not be at the expense of the developing countries. With regard to the request for greater transparency in terms of expenditures, he stressed that a response would be prepared. On the matter of increased technical assistance to Africa, he pointed to the involvement of the Division in the forthcoming investment conference in Africa to be held in late 1995 and encouraged an examination of how this issue could be pursued at UNCTAD IX. With respect to the FDI data base, he gave an explanation of the difficulties arising in connection with its re-establishment. Concerning the involvement of the private sector in the technical assistance work of the Division, that involvement was in fact already well established. On the matter of ISAR convening a meeting of experts on environmental accounting, he clarified that this would have no budgetary repercussions or financial implications, and with regard to the discrepancy in the tables in document TD/B/ITNC/Misc.3, he said clarification would be provided.